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**NEWS RELEASE**

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**PSC GRANTS RATE ADJUSTMENT TO EAST KENTUCKY POWER**  
***\$19 million interim increase given in April is made permanent***

FRANKFORT, Ky. (Dec. 5, 2007) – The Kentucky Public Service Commission (PSC) today made permanent a \$19 million increase in annual revenue that had been granted to East Kentucky Power Cooperative Inc. (EKPC) on an interim basis in April.

While the increase is only about half the amount requested by EKPC, the PSC noted in today's order that EKPC has indicated it will request two or three more rate increases in the next four or five years "in order to keep its finances on a strong footing."

"This is a reasonable expectation," the PSC said, adding that "it expects EKPC to closely monitor its financial situation and file applications for rate cases in a timely manner."

Furthermore, EKPC should update its environmental surcharge filings with the PSC in order to begin recovering costs of emission control projects that were not included in the last update in 2005, the PSC said in today's order.

"Given its current financial condition, it is essential that EKPC utilize all available options to provide for timely recovery of costs," the PSC said.

The PSC was unable to grant the increase requested by EKPC because the company structured this rate request in ways that did not conform to accepted ratemaking principles. Bringing the request into line with established ratemaking principles and precedents lowered the allowed revenue increase down to just below \$19 million. After examining all the evidence, the PSC concluded that the interim increase of \$19 million should be made permanent.

EKPC provides electricity to and is owned by 16 distribution cooperatives serving about 500,000 customers in 89 Kentucky counties. Because the interim increase in wholesale rates granted in April has been passed through to the customers of the distribution cooperatives, they will not see any rate changes as a result of today's PSC action.

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In its original rate request, filed in January, EKPC sought a \$43.4 million increase in annual revenue. EKPC subsequently reduced its request to \$38.5 million based on a settlement the company reached with two of three intervenors in the case, the Kentucky Office of Attorney General and the Kentucky Industrial Utility Customers, Inc.

Because the third intervenor, the Cumberland Chapter of the Sierra Club, was not a party to the agreement, the PSC could not consider the settlement.

The PSC has been concerned about EKPC's financial condition for some time. A number of factors have created problems for the utility, including a lengthy unplanned outage at a major power plant, substantial penalties and environmental compliance costs imposed by the U.S. Environmental Protection Agency and higher interest expenses due to the need to borrow money to build new facilities. As a result, EKPC's credit ratings have declined, making it more expensive for the utility to borrow additional funds.

The PSC noted that EKPC on May 1 filed a "plan of remedy" intended to restore compliance with certain requirements of its loan agreement with the Rural Utilities Service (RUS), the federal agency which lends money to electric cooperatives at favorable interest rates. The plan anticipates applications for several rate increases in the next few years.

The first of those applications should come no later than nine months after EKPC begins generating electricity at its Spurlock 4 unit near Maysville, the PSC said in today's order. EKPC should file sooner than that if conditions warrant, the PSC said.

The PSC ordered EKPC to continue providing additional financial information, including monthly reports of revenues and expenses.

Today's order, other related documents and video of hearings in the case are available on the PSC Web site, [psc.ky.gov](http://psc.ky.gov). The case number is 2006-00472.

The PSC is an independent agency attached for administrative purposes to the Department of Public Protection in the Environmental and Public Protection Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the Commonwealth of Kentucky and has approximately 110 employees.

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## **TIME LINE FOLLOWS**

## TIME LINE IN CASE 2006-00472

**Oct. 27, 2006** – Kentucky Public Service Commission (PSC) opens an investigation into financial condition of East Kentucky Power Cooperative (EKPC) (Case 2006-00455).

**Nov. 13, 2006** – EKPC files its initial notice of its intent to seek a rate adjustment.

**Dec. 8, 2006** – EKPC files revised a notice of intent.

**Jan. 29, 2007** – EKPC files a request for \$43.4 million increase in annual revenues.

**March 6, 2007** – EKPC files a partial settlement with Kentucky Office of Attorney General (AG) and the Kentucky Industrial Utility Customers, Inc. (KIUC) for a \$19 million interim increase.

**April 1, 2007** – PSC grants EKPC a \$19 million interim increase, finding that the amount requested by EKPC was reasonable while not adopting the settlement.

**June 19, 2007** – Noting that the issues addressed by the investigation of EKPC's financial condition are being addressed through the general rate case, the PSC closes the investigation.

**Aug. 31, 2007** – EKPC, AG and KIUC file a settlement agreement proposing an annual revenue increase of \$38.5 million. Because the Cumberland Chapter of the Sierra Club declines to join in the agreement, the PSC is unable to consider it as submitted.

**Sept. 5, 2007** – PSC conducts an evidentiary hearing in the case.

**Dec. 5, 2007** – PSC issues its final order.